

Message Text

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ACTION AF-06

INFO OCT-01 ARA-06 EUR-12 EA-06 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 PA-01 PRS-01 /124 W

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R 081357Z JUL 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 074

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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AMEMBASSY LONDON

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AMEMBASSY TEHRAN

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AMEMBASSY VIENNA

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SUBJECT: NIGERIAN GOVERNMENT WAKES UP TO LOW OIL PRODUCTION

REFS: (A) LAGOS 4144

(B) LAGOS 5713

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1. NIGERIAN GOVERNMENT IS AT LEAST BEGINNING TO SHOW SOME AWARENESS OF THE GREATLY DECREASED OIL PRODUCTION AND ITS CONSEQUENCES. MOST IMPORTANT REACTION TO DATE WAS A LETTER LAST WEEK FROM MINISTRY OF MINES AND POWER WHICH ORDERS THE PRODUCING COMPANIES TO MAKE NO FURTHER REDUCTIONS WITHOUT PRIOR APPROVAL OF THE MINISTRY. ACCORDING TO MANAGING DIRECTOR OF ONE AMERICAN COMPANY, MINISTRY OFFICIALS COUCHED THE ORDER IN TECHNICAL ENGINEERING TERMS, BUT DURING A MEETING ON THE SUBJECT THEY APPEARED TO BE ACTING UNDER PRESSURE FROM HIGHER AUTHORITIES WHO WANT TO STEM ANY FURTHER LOSS OF REVENUE. EARLIER, COMMISSIONER OF MINES AND POWER MONGUNO SAID ON IBADAN TELEVISION JUNE 19 THAT THE CURRENT LOW LEVEL OF REVENUE REQUIRES "PRUDENT PUBLIC SPENDING."

2. COMMENT. MONGUNO'S "WARNING" IS THE FIRST THAT THE NIGERIAN PUBLIC HAS HEARD IN A LONG, LONG TIME ABOUT THE LIMITS OF THE OIL WEALTH OR THE WISDOM OF ECONOMY IN GOVERNMENT, AND IT WAS PROBABLY HEEDDED BY VERY FEW. THE PUBLIC AND THE BUREAUCRACY CONTINUE THEIR HEADLONG RUSH TO IMPLEMENT AS MUCH AS POSSIBLE OF THE FIVE-YEAR DEVELOPMENT PLAN WHICH ALLOCATED \$33 BILLION FOR PUBLIC SECTOR INVESTMENT (AND LISTS PUBLIC SECTOR PROJECTS NOMINALLY WORTH \$54 BILLION). THE PLAN FORECASTS OIL REVENUE OF \$9.9 BILLION FOR FY 1975-76, BUT IN THE FIRST HALF OF THE YEAR -- BASED ON OIL ALREADY PRODUCED -- IT WILL SCARCELY EXCEED \$3 BILLION.

3. ALLIED TO THE QUESTION OF PRODUCTION AND REVENUE IS THE DEPRESSED STATE OF THE NIGERIAN OIL INDUSTRY. ACCORDING TO EMBASSY COUNT (SEPAIR), FOUR OFFSHORE DRILLING RIGS HAVE LEFT NIGERIA SINCE JANUARY (OR ARE PREPARING TO GO), AND FOUR LAND RIGS ARE IDLE. ONLY 23 RIGS ARE ACTIVE, BARELY ENOUGH TO MAINTAIN PRODUCTIVE CAPACITY OF ABOUT 2.3 MILLION BARRELS PER DAY. UNDER THE MOST FAVORABLE CIRCUMSTANCES, IT WOULD TAKE SEVERAL MONTHS TO RESTORE LAST YEAR'S LEVEL OF ACTIVITY.

4. OIL COMPANIES CONTINUE TO BLAME THE FMG FOR SETTING UNREALISTICLY HIGH OIL PRICES, AND THEY SEEM TO BE PROVEN CORRECT BY THE GOVERNMENT'S CONTINUED INABILITY TO SELL VERY MUCH OF ITS OWN CRUDE OIL. ACCORDING TO LOCAL SOURCES, THERE HAS BEEN NO CONFIRMATION OF THE REPORT PUBLISHED IN THE JUNE 23 LIMITED OFFICIAL USE

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PIW THAT THE SPOT MARKET PRICE OF NIGERIAN OIL HAS RECENTLY FIRMED AND THAT THIS MIGHT LEAD TO INCREASED DEMAND FOR GOVERNMENT OIL AT \$11.60 PER BARREL.

5. IN CONTRAST TO MOST OPEC COUNTRIES, NIGERIA HAS NOT YET ANNOUNCED TAX, ROYALTY, AND BUY-BACK TERMS FOR THE THIRD QUARTER. THE BIG-THREE PRODUCING COMPANIES EXPECT TO MEET WITH THE GOVERNMENT AT ANY TIME TO DISCUSS THE TERMS, BUT THE

GOVERNMENT HAS SO FAR TURNED AWAY THERE REQUESTS FOR MEETINGS.
THUS, WE DO NOT YET HAVE ANY INDICATION IF THE GOVERNMENT IS
GOING TO MODIFY ITS TERMS IN ORDER TO INCREASE OIL REVENUE,
BUT THIS IS CLEARLY THE GOVERNMENT'S CURRENT DILEMMA.
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